

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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State Debt

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Types of State Debt

- General Obligation
 - Full Faith & Credit Pledge of the State's Taxing Power
 - Generally Voter Approved (exception 2/3rds Bonds)
 - Highest Credit Quality
 - Most Transparent
- Special Indebtedness ("Appropriation – Supported Debt")
 - Debt Service paid for appropriated amounts
 - One "Notch" lower than GO rating so are more expensive than GO debt
 - Taxpayers have no role in the process



Types of State Debt (Cont.)

- Revenue Bonds

Specific revenue stream pays debt service

Examples:

- GARVEE
- NCTA

May be multiple notches below GO rating and therefore could be much more expensive and the least transparent.



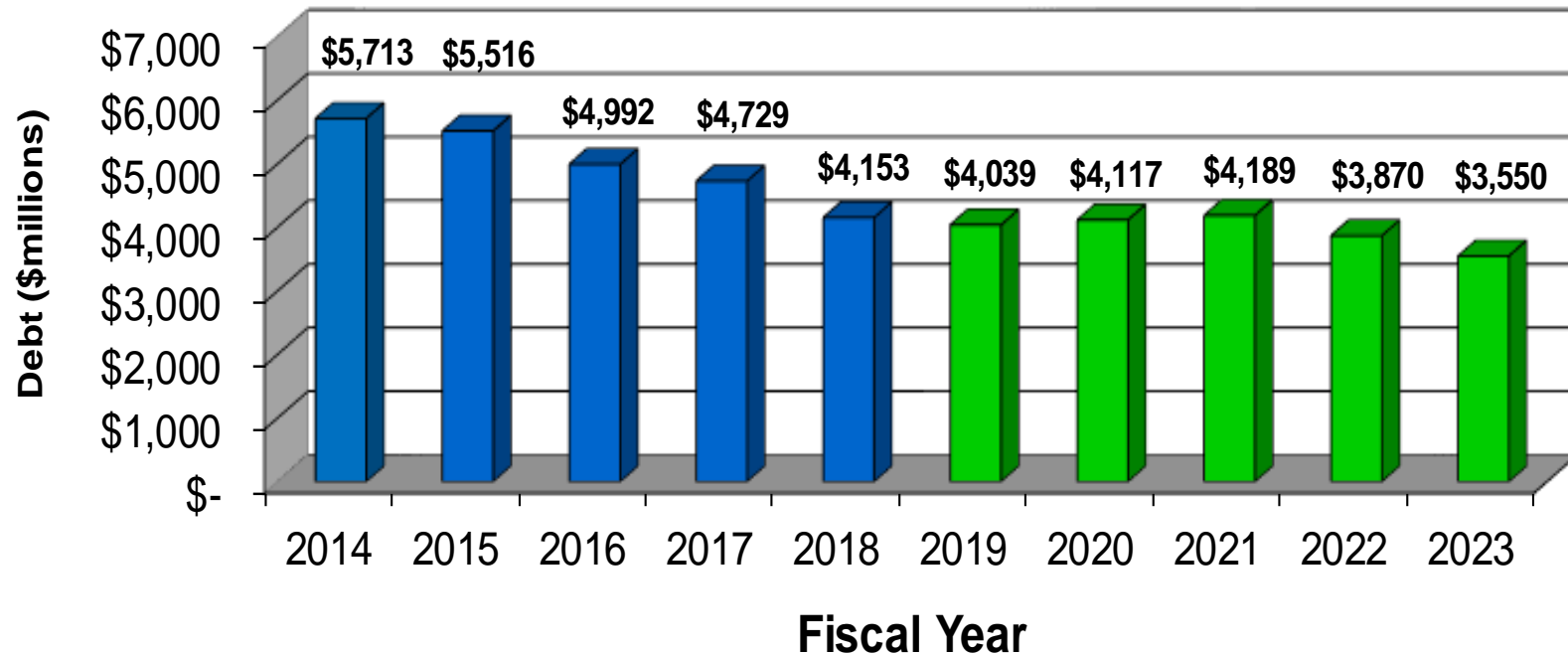
Outstanding Debt by Type (\$millions) 6/30/18

<u>Debt Type</u>	<u>Amounts</u>
General Obligation Bonds:	
• General Fund GO Bonds	\$2,340.4
• Highway GO Bonds	<u>101.3</u>
Total General Obligation Bonds	<u>\$2,441.7</u>
GF Net Tax-Supported Special Indebtedness: (Limited Obligation Bonds, COPs, Lease Revenue Bonds, Leases & Installment purchase contracts)	\$1,812.1
NCTA GAP-Funded Appropriation Bonds	\$707.1
Total General Fund and Transportation Tax-Supported Debt	<u>\$4,960.9</u>
Other Debt:	
• GARVEEs	\$516.8
• Guaranteed Energy Savings Contracts	\$196.8
• NC Turnpike Authority (includes TIFIA)	<u>\$800.6</u>
Total Debt	<u>\$6,475.1</u>



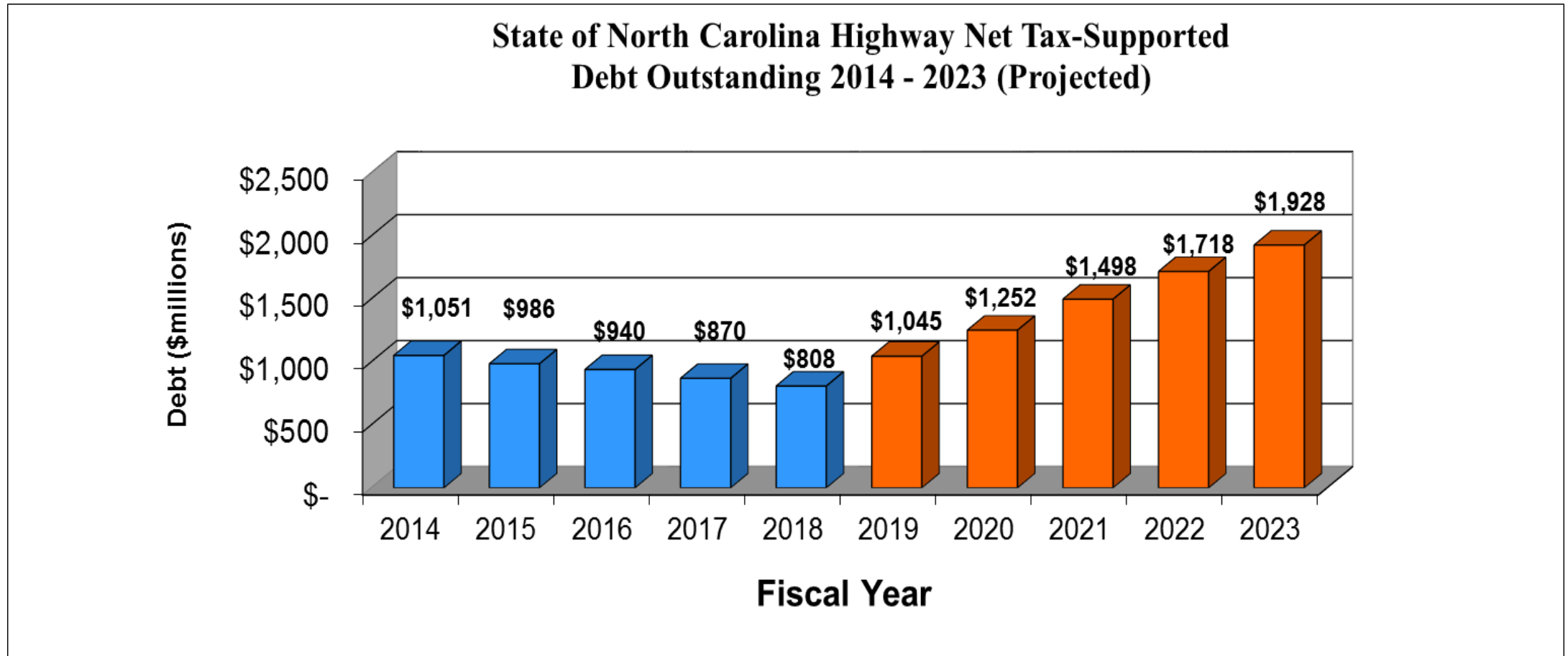
General Fund NC Debt Levels Declining

State of North Carolina General Fund Net Tax-Supported
Debt Outstanding 2014 - 2023 (Projected)



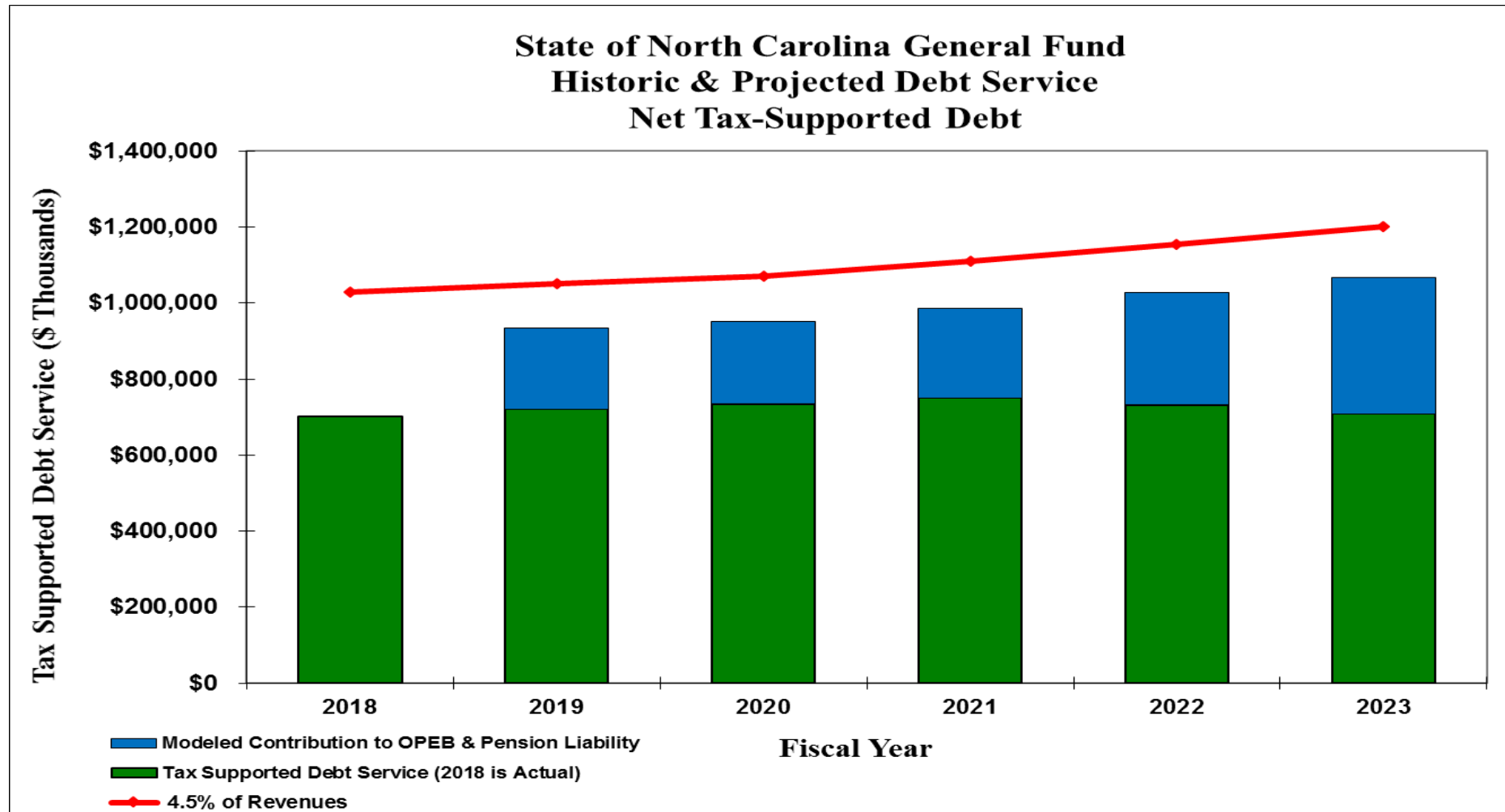


Transportation Debt Levels are Projected to Increase



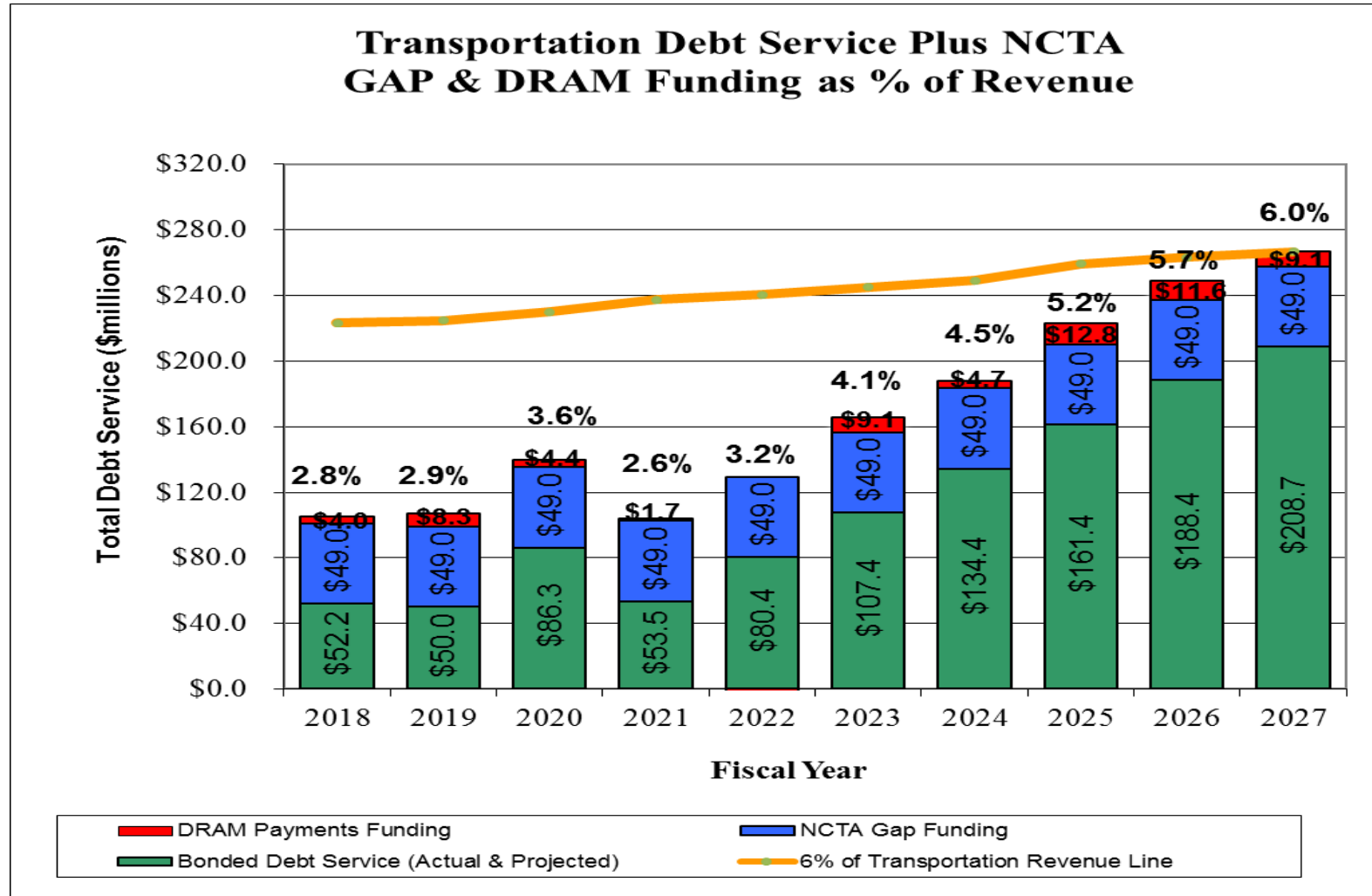


GF Debt Service 2018-2023 vs. 4.5% (\$0000)





Transportation Debt Service 2018-2027 vs. 6% (\$ millions)





\$3 billion Build NC Bonds

- S.L. 2018-16 “Build NC Bond Act of 2018”
- \$3 billion total authorization for regional and divisional transportation projects (up to \$300 million annually)
- Debt Service paid from Highway Trust Fund
- Subject to various constraints
 - Cash balances
 - Treasurer recommendation
 - DAAC limits
 - Special Indebtedness provisions (Chapter 142, Article 9)
 - Maximum 15-year maturity
- The Issuance of the Build NC Bonds utilizes (more than) all of the Transportation Debt Capacity
 - Assuming all \$300 million is issued annually, in FY 2027 and 2028 the 6% limitation will be exceeded (6.20% and 6.64% respectively)
 - Therefore issuance may need to be slightly reduced in those years (\$137 million versus \$300 million)
 - Projections still show more than \$3 billion of available proceeds due to premium structures (prices above par)



Review: What is Debt Affordability?

- The amount of debt that may be prudently authorized and issued in a given period *without* negatively affecting the credit position or impairing the budget flexibility of the issuer.
 - The amount of debt that is affordable (“capacity”) is finite
 - Capacity can be measured and compared
 - Issuance beyond a prescribed level can erode credit ratings
 - The State measures its available capacity using tax-supported debt: self-supporting debt is excluded



Other Recommendations of the Debt Affordability Advisory Committee

- The State has large unfunded liabilities relating to Pensions and Post Employment Benefits
 - The Bond Rating Agencies are scrutinizing carefully
 - The State should not only recognize the magnitude and importance of these liabilities but develop a plan to address and fund them
- Control of Debt Authorization & Management a credit strength and should remain prerogative of the General Assembly.
- State-Aid Intercept opposed
- GO debt preferred, but not exclusive, financing vehicle
- Structural Budget Balance/Replenishment of Reserves a Priority



GF Model Results

General Fund - 2017-18 Policy

**Alternate Debt Capacity using 4.5% debt service/revenues target ratio
(In millions of dollars)**

Fiscal Year	2019	2020	2021	2022	2023
\$ to Unfunded Liabilities	\$213.4	\$217.7	\$236.4	\$294.3	\$359.3
Total Additional Debt Capacity per Year *	\$1,364.6	\$50.8	\$56.7	\$58.9	\$61.2
Debt Capacity Available each and every Year	\$206.8	\$206.8	\$206.8	\$206.8	\$206.8

* In addition to that already authorized but unissued. Assumes additional debt capacity is authorized and issued in stated fiscal year.



Transportation Model Results

Transportation					
Net Tax-Supported Debt Capacity using 6.0% debt service/revenues target ratio					
(In millions of dollars)					
Fiscal Year	2019	2020	2021	2022	2023
Total Additional Debt Capacity per Year *	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Debt Capacity Available Each and Every Year	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
* In addition to that already authorized but unissued. Assumes additional debt capacity is authorized and issued in stated fiscal year. GAP Funding for North Carolina Turnpike Authority projects assumed to total \$49 million annually.					



Combined GF and Transportation Results

General Fund and Transportation Funds Combined Debt Service / Revenue Percentages

Fiscal Year	2019	2020	2021	2022	2023
General Fund	3.09%	3.08%	3.04%	2.85%	2.65%
Transportation *	2.87%	3.64%	2.63%	3.15%	4.05%
Combined	3.06%	3.16%	2.99%	2.89%	2.84%

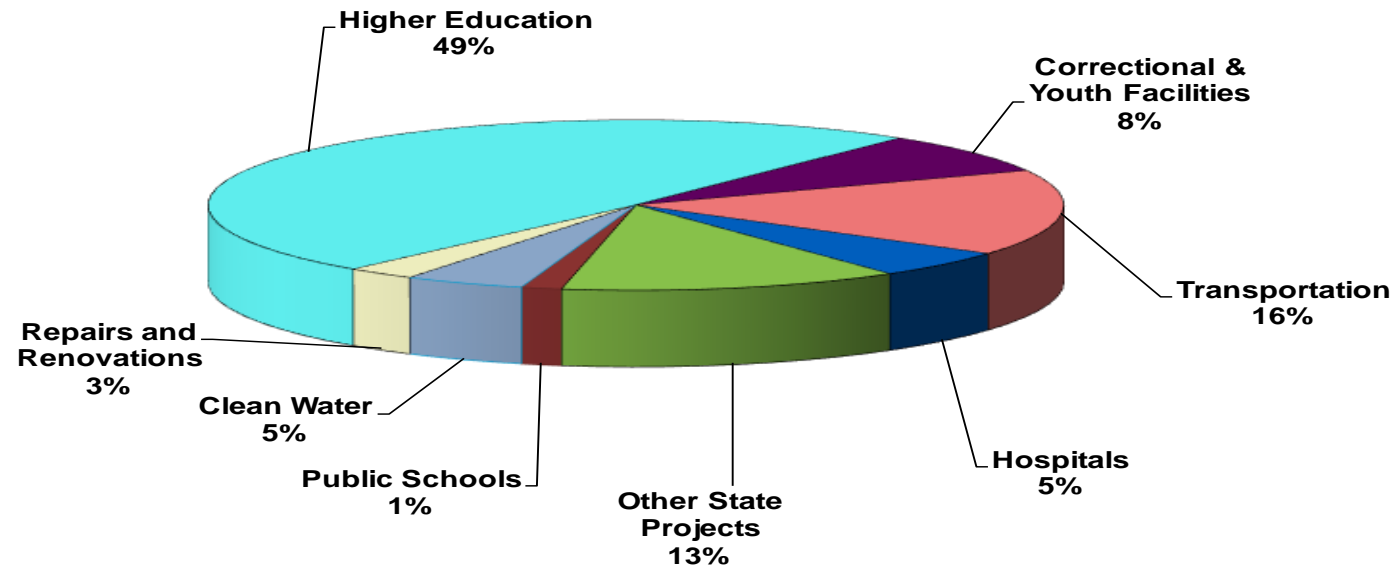
Note: Percentages are based on forecasted revenues and debt service.

* GAP Funding for North Carolina Turnpike Authority projects assumed to total \$49 million annually.



NC Tax-Supported Debt by Use

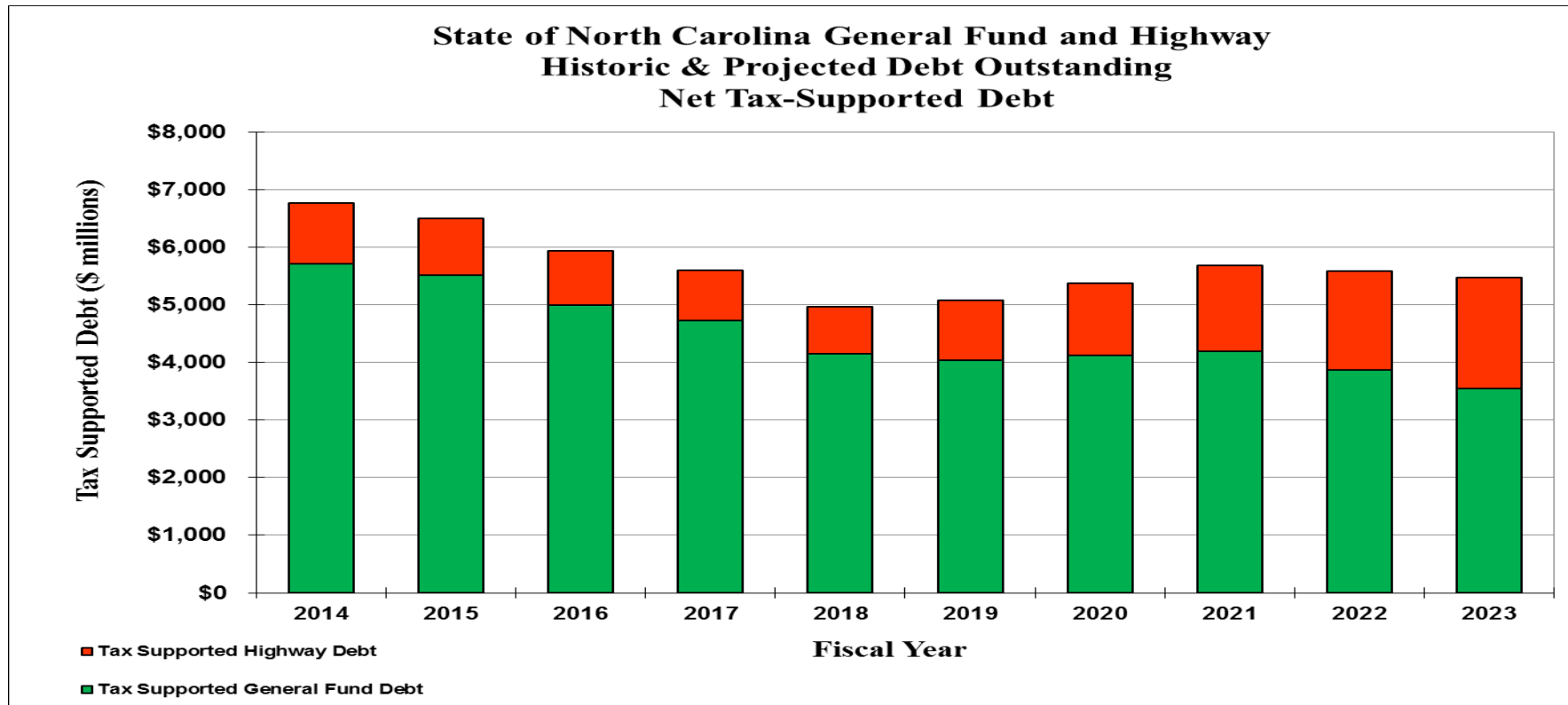
**North Carolina Total Outstanding
Tax-Supported Debt by Program
as of June 30, 2018**



Total Tax-Supported Debt at June 30, 2018 = \$4,960.9 million



NC Combined Tax-Supported Debt (Actual & Projected)



(\$ millions)										
Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
GF	\$ 5,713	\$ 5,516	\$ 4,992	\$ 4,729	\$ 4,153	\$ 4,039	\$ 4,117	\$ 4,189	\$ 3,870	\$ 3,550
HWY	1,051	986	940	870	808	1,045	1,252	1,498	1,718	1,928
Totals	\$ 6,764	\$ 6,502	\$ 5,932	\$ 5,599	\$ 4,961	\$ 5,084	\$ 5,369	\$ 5,687	\$ 5,588	\$ 5,478



Pension and OPEB Liabilities

are being treated as debt by the Rating Agencies (6/30/18)

Liabilities:

Net Pension Liability (TSERS)	\$ 10.0 billion
Net OPEB Liability (Retiree Health Benefit Fund)	<u>\$28.5 billion</u>
Total	<u>\$38.5 billion</u>

Funding:

Pension – Actuarially Determined Employer Contribution (ADEC)	\$1.70 billion
OPEB – ADEC (Health Care & Pharmaceutical)	<u>\$2.61 billion</u>
Total	<u>\$4.31 billion</u>



2018 Debt and Fitch-Adjusted Pensions Info – “AAA” Peer Group

2018 Debt and Fitch-Adjusted Pensions Information - "Triple-AAA" Peer Group						
State	Total NTSD (\$000)	Fitch-Adj Total NPL (\$000)	NTSD and Fitch-Adj NPL (\$000)	NTSD and Fitch-Adj NPL as % of PI		
Tennessee	\$2,119,080	\$4,582,269	\$6,701,349	2.2%		
Florida	18,916,300	11,655,901	30,572,201	3.1%		
Iowa	1,998,130	2,634,653	4,632,783	3.1%		
North Carolina	6,409,800	8,870,564	15,280,364	3.4%		
Utah	2,420,764	2,144,303	4,565,067	3.4%		
South Dakota	702,281	1,061,203	1,763,484	4.2%		
Virginia	13,460,807	11,008,493	24,469,301	5.2%		
Georgia	10,320,199	14,302,013	24,622,212	5.3%		
Missouri	3,198,631	11,671,167	14,869,798	5.4%		
Indiana	2,387,063	15,136,877	17,523,940	5.8%		
Texas	17,763,256	77,210,110	94,973,366	7.1%		
Delaware	2,439,600	3,184,668	5,624,268	11.8%		
Maryland	14,963,401	37,179,608	52,143,009	14.2%		
Peer Median	\$3,198,631	\$11,008,493	\$15,280,364	5.2%		
Peer Average	\$7,469,178	\$15,433,987	\$22,903,165	5.7%		

Source - FitchRatings - 2018 State Pension Update (November 12, 2018).



S&P - North Carolina Comparative OPEB Position

North Carolina Comparative OPEB Position

(\$ in Millions)

State	Unfunded OPEB	Total OPEB Liab	Combined Funded Ratio - All OPEB ¹	Unfunded OPEB per Capita	Combined actuarial annual OPEB cost ²	Combined actual annual payment	% of annual actuarial cost paid	Valuation ²
South Dakota ³	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.0%	N/A
Utah	112	379	70.3	36	30	35	114.5%	12/31/2016
Iowa	192	192	-	61	24	11	44.7%	7/1/2016
Indiana	502	660	23.9	75	36	36	98.9%	6/30/2017
Tennessee	1,380	1,380	-	206	134	79	58.5%	7/1/2015
Missouri	2,746	2,871	4.4	449	188	97	51.5%	6/30/2017
Virginia	5,214	7,299	28.6	616	437	225	51.5%	6/30/2016
Delaware	8,256	8,611	4.1	8,582	543	239	44.0%	7/1/2016
Maryland	11,085	11,392	2.7	1,832	818	527	64.4%	6/30/2016
Georgia	17,739	20,077	11.6	1,701	873	250	28.7%	6/30/2016
Florida	19,891	20,069	0.9	948	801	248	30.9%	7/1/2016
North Carolina	32,726	34,360	4.8	3,185	2,752	1,012	36.8%	12/31/2016
Texas	88,692	89,801	1.2	3,133	8,101	1,513	18.7%	8/31/2017
Median	\$6,735	\$7,955	\$4	\$782	\$490	\$232	48.1%	N/A
Average	\$15,711	\$16,424	\$13	\$1,735	\$1,228	\$356	53.6%	N/A

¹ Funded ratio for all OPEB plans combined for a given state.

² Actuarial annual OPEB costs combined for all OPEB plans for a given state based on the dated actuarial valuation report noted.

³ South Dakota does not offer OPEB benefits.

Source - S&P Global Ratings report dated November 28, 2018.



Evaluation of Bond Like Proposals ("There is still no free lunch.")

- Capital Funding needs will always outstrip Resources so Prioritization is Key
- Capacity is Finite whether "Pay-Go" or Debt-Financed
 - Capacity is not increased by Public-Private Partnerships
 - Capacity is not increased by Leasing